

**Board of Governors of the Federal Reserve System**

**REPORT ON THE  
AUDIT OF THE BOARD'S  
PROCUREMENT AND CONTRACT  
MANAGEMENT PROCESS**



**OFFICE OF INSPECTOR GENERAL**



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

August 30, 1996

The Honorable Alice Rivlin  
Vice Chair and Administrative Governor

We are pleased to present our final *Report on the Audit of the Board's Procurement and Contract Management Process* (A9507-A). We performed our audit to evaluate the efficiency and effectiveness of the Board's acquisition process, as well as the sufficiency and effectiveness of internal and management controls over the process.

As described in the report, we believe that the Board needs to fundamentally change its acquisition philosophy and day-to-day practices to tailor procurements to needs, goals, and expected results; encourage customer service and communication; set accountability; and ensure appropriate controls are in place. Our report contains sixteen recommendations: eight directed at building a "best value" acquisition process in keeping with the federal procurement reinvention effort and with current practices in the private sector, and eight directed at strengthening the internal control framework.

The Staff Director for Management and the Director of the Division of Support Services incorporated comments from the Controller and the General Counsel, and provided us with a coordinated response to our draft report (see appendix 1). The response concurs either fully or in part with fourteen of the sixteen recommendations, but indicates some fundamental disagreements regarding the level of change needed in the Board's acquisition process. These disagreements will come into more specific focus as you address our first recommendation, which is directed to you as the Administrative Governor.

We are sending a copy of this report to each member of the Board and to the heads of the Board's offices and divisions. The report is available to the public and a summary will appear in our next semiannual report to the Congress. We plan to follow up on implementation of our recommendations and will report any exceptions as part of our future audit activities.

Sincerely,

Brent L Bowen  
Inspector General

Enclosure

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# EXECUTIVE SUMMARY

## Background

A primary goal of the Board of Governors of the Federal Reserve System's (the Board's) procurement program is to acquire goods and services of the highest quality within the time required, while maximizing the economy, efficiency, and effectiveness of the acquisition process. The Board has a great deal of flexibility in designing its full acquisition process—from identifying requirements through award and administration—because it is not required to follow general federal procurement law or implementing rules set forth in the Federal Acquisition Regulation (FAR). However, the Board generally observes the spirit and intent of the FAR.

The heads of the Board's divisions and offices, or their designees, begin the acquisition process by identifying the goods and services that they need to accomplish their program responsibilities and by issuing an approved purchase requisition. Procurement authority is delegated from the Board of Governors—through the Chairman, the Administrative Governor, and the Staff Director for Management—to the Director of the Division of Support Services (SS), who serves as the Board's contracting officer. A ten-person Procurement Section in SS provides a centralized purchasing and contracting service to Board divisions and offices, which are its customers. Separating authority between the purchase requisitioner (or customer) and the contracting officer is an internal control that helps the Board ensure that its funds are being spent for legitimate purposes. The Board's Office of the Controller (OC) and Legal Division are also part of the internal control framework, with responsibilities for reviewing and approving acquisitions at various points in the process.

At a time when buying goods and services is becoming increasingly complex, electronic commerce and other aspects of the acquisition process are receiving a great deal of attention in both the private and federal sectors. The private sector, which has long emphasized buying "value" at an affordable price, is transforming procurement into a strategic business function that performs market research, develops cost-effective relationships with reliable and responsive sources, and manages the process to help gain a competitive edge. The federal government has also begun a series of initiatives to fundamentally reform and "reinvent" its procurement processes with the goal of providing more innovative customer service, less bureaucracy, and greater value for the money. Legislative reforms and the corresponding changes to the FAR are moving federal procurement practices closer to the "best practices" of the private sector, including more emphasis on obtaining the best value for the dollar and promoting quality in vendor performance.

## **Audit Purpose**

We performed this audit to evaluate the efficiency and effectiveness of the Board's acquisition process, as well as the sufficiency and effectiveness of the internal and management controls over the process. We also reviewed the Board's credit card program for small purchases to determine whether the program was being used effectively and whether controls over credit card purchases were sufficient. We issued a separate report on the results of that review.<sup>1</sup>

## **Results**

Overall, we believe that the Board needs to fundamentally change its acquisition philosophy and day-to-day practices to enhance efficiency and effectiveness and better position the Board for managing increasingly complex procurements. The current acquisition process is characterized by a rigid framework that tends to be implemented in a mechanical way, without sufficient regard for what is being purchased, what the customer's goals are in terms of time frames and results, and whether the selected procurement approach is the best available given the nature of the procurement. Although procurement management generally believes it focuses on customer service, we found that effective communication and teamwork is lacking throughout the acquisition process and that managers and staff from most of the Board's divisions and offices are frustrated with the process and dissatisfied with the quality of the service they receive from the Procurement Section. The Procurement Section staff focus more on handling the administrative mechanics of the process than on developing and managing a tailored buying strategy, and we believe that a comprehensive training program will be critical in developing the knowledge and skills the staff need to take a more strategic and proactive role.

We also believe that the internal and management control framework over the full acquisition process needs to be strengthened to improve its integrity, accuracy, and reliability. While we did not find fraud or abuse, we did find opportunities to build additional quality and control into the process by enhancing accountability and responsibility for various steps in the procurement process. For example, internal controls over SS acquisitions need to be formalized, and the OC's responsibility for reviewing acquisitions needs to be streamlined with clearer accountability for the quality of requests for proposal (RFPs) and contracts. Due to technology-related issues, meaningful statistics on Board acquisitions during 1995—including such basic data as the number and dollar value of contracts awarded during the year—are not

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<sup>1</sup>Our conclusions and recommendations regarding credit card purchases are provided in a separate report, titled *Report on the Audit of the Board's Procurement and Contract Management Process: Credit Card Purchases* (A9507-B).

readily available, forcing the Procurement Section and others to create ancillary reporting systems that are duplicative and not easily reconciled with data from the Board's system. Controls over the contractual technical evaluation process are weak, with inconsistent approaches, unclear scoring, and poor documentation of results. Contract files we reviewed were inconsistently maintained and generally incomplete and disorganized—making it difficult to reconstruct key events in the decision-making process. We also found that the Board's standard contract provisions are not clearly written, are outdated in some areas, and are not always internally consistent.

Our report contains sixteen recommendations: eight directed at building a more efficient and effective acquisition process in keeping with the “spirit and intent” of changes in the FAR and with current practices in the private sector, and eight directed at strengthening the internal control framework. To build a more efficient and effective process, we believe that the first step is to adopt a broad best value philosophy and strategic direction for the Board's acquisition process that emphasizes customer service, eliminates rigid requirements, and tailors the approach to the specific procurement. At the same time, we recognize that successfully implementing the best value philosophy requires making some up-front investments to clarify the acquisition process and the associated roles and responsibilities of the “procurement team,” to develop training programs that enhance the Procurement Section's capabilities and the customers' understanding of the process, and to establish a more systematic approach for identifying qualified vendors on the basis of reliable past performance data. We also recommend adopting and implementing a more team-oriented approach to contract administration, and establishing close-out procedures for purchases and contracts that include obtaining customer feedback on the efficiency of the acquisition process and the quality of support provided by the Procurement Section.

A strong and streamlined internal and management control framework goes hand-in-hand with a more customer-focused, results-oriented acquisition process. Our recommendations place more responsibility and accountability for results on the contracting officer, the Procurement Section, and the customers. We recommend establishing a more formal and realistic approach for the Staff Director for Management's oversight of procurements specific to SS. We also recommend raising the dollar threshold for OC reviews of purchase requisitions to better center accountability on the Procurement Section and customers and to streamline the process. Our discussions with Board managers and staff, along with our review of sample purchases and contracts, lead us to call for increased attention to the basic elements of a strong acquisition process: an accurate and reliable management reporting system that can be tailored to meet information needs; a solid technical evaluation process that enables Board staff and managers to make best value types of decisions that are supported by a logical and clearly documented rationale; and contract files that are consistently complete, organized, and professional. We also see opportunities to use the current technology in all Board divisions and offices to position the Board to take

advantage of electronic commerce capabilities as they become available. Finally, we recommend reviewing and updating the wording of the Board's general contract provisions to ensure that they are clear, up-to-date, and geared to individual procurement efforts.

By implementing our recommendations, we believe that the Board will move its acquisition program closer to the private sector's best commercial practices in a manner that is consistent with federal procurement reform. Taken together, our recommendations should provide a more efficient and effective acquisition approach that will, over the long term, better serve Board management and staff.

## **Analysis of Comments**

We provided draft copies of this report to the Staff Director for Management, the Director of SS, the Controller, and the General Counsel for their review and comment. The Staff Director for Management and the Director of SS provided us with a response that collectively incorporates each of their comments and we have included this response as appendix 1 to this report (see page 45). Overall, they concur either fully or in part with fourteen of the sixteen recommendations.

Notwithstanding the high degree of concurrence with our recommendations, the Director of SS's comments indicate a fundamental disagreement with the report's overall conclusion. Although the director agrees there is always room for improvement, he takes exception to our belief that a fundamental change is needed in the way Board procurements are handled and believes that SS already understands and uses the concepts of best value procurement. The director also stated that he took exception to the belief that the Procurement Section does not understand its customers' needs. As we acknowledged in the report, the Board's acquisition process has traditionally recognized some of the underlying concepts of a best value approach. However, the Board's current process requires strict adherence to an 80/20 cost/technical split, lacks a systematic method of identifying and selecting qualified vendors, and lacks adequate procedures for collecting and using past performance information--approaches which are contrary to a best value procurement philosophy. In addition, we believe that the Procurement Section needs to adopt a more proactive, customer-oriented, team approach to ensure that it fully considers the customers' requirements, the complexity of the procurement itself, and the need to effectively tailor the procurement vehicle to each acquisition.

Regarding the specific recommendations, the Director of SS disagreed with our recommendations for identifying qualified vendors (recommendation 5) and strengthening the contract administration process (recommendation 7). The Staff Director for Management partially agreed with our recommendations for implementing

a team approach (recommendation 2), revising OC's review of purchase requisitions and other contractual documents (recommendation 10), and implementing ASAP's electronic routing capabilities (recommendation 13). Although the Staff Director agreed with the thrust of our recommendation to adopt a broad best value philosophy and strategic direction for Board acquisitions (recommendation 1), his response does not specifically address that part of the recommendation which calls for eliminating the rigid requirement for the 80/20 cost-technical split. We are concerned that, absent definitive action to eliminate this rigid requirement, the Board's procurement process will fail to fully embrace a best value philosophy. (See page 39 for our detailed analysis of the response.)



